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TREASURY FOR OASIA - MILLS AND LEICHTER
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TAGS: ECON EINV EFIN PGOV TU
SUBJECT: REACTION MUTED TO NEW PENSION OPPORTUNITIES

¶1. Sensitive but Unclassified. Not for internet distribution.

¶2. (SBU) Summary: Turkey's new private pension system was unveiled with much fanfare at the end of October, with optimistic prognosticators predicting that up to 10 million Turks will enroll over the next decade. Initially six companies are offering private pension plans, with another six waiting to be licensed. Boosters trumpet the system as one that will enable workers to maintain their standard of living in retirement, while also providing an important source of long-term financing for Turkish economic development. Sceptics argue, however, that the new system differs little from previously existing private pensions that were offered by life insurance companies, and that with only a modest increase in incentives for participation the system will be hard pressed to achieve its ambitious goals. End Summary.

¶3. (U) High-profile Rollout: Turkey's new and improved private pension system received a high profile rollout last week, with industry executives reporting extensive interest from the public. Designed to supplement Turkey's existing public social security net, the system enables workers to put money in a variety of funds linked to different investment vehicles, including the stock market and government securities. Initially, six companies (Ak, Anadolu, Garanti, Oyak and Yapi Kredi Emeklilik) are licensed to participate in the system, all affiliated with major Turkish banks and insurance companies. An additional six companies, including firms affiliated with the Dogan and Koc groups expect to receive their licenses in the next few weeks. Each firm offers between 5 and 9 different funds, and requires a minimum monthly contribution that can be as little as 25 dollars or 40 million TL.

¶4. (U) Rules/Incentives: In contrast to previously existing private pensions in Turkey, which were offered by life insurance companies, the new plan gives enhanced flexibility in some areas, but takes away in others. Contributors will now be able to switch their investments between participating companies and within each company among its various investment funds. But contributors must also pay into the system for at least 10 years and reach the age of 56 before they are able to take money out without penalty, in contrast to the existing scheme where only the ten year rule applies. Beyond the fifteen percent tax that participants will face on early withdrawal, sceptics also note that the new system's incentives, while enhanced from the previous system, remain modest. The maximum tax credit on contributions is 10 percent of a contributor's income (to a maximum of Turkey's minimum wage, currently 180 USD/month), up from 5 percent under the old system. In place of the 10 percent tax on benefits under the old system for those meeting the age and contribution thresholds, the rate is cut to 5 percent. Investment advisors nonetheless argue that workers who invest 10 percent of their income for 20 years will be able to maintain their standard of living in retirement, though of course there are no guarantees for how the various funds will perform.

¶5. (SBU) Outlook: Publicly, at least, fund organizers predict that 8 to 10 million workers, or between a third and a half of those officially registered as workers in the Turkish economy will elect to participate in the system in the next 10 years. Ak Emeklilik, which is affiliated with AK Bank, Turkey's leading financial insitution, has publicly targeted a 10 percent market share, with 50,000 clients and 300 million USD in assets in the first year alone. Privately, however, other industry executives predict that industry's takeoff will be more gradual. Garanti Emeklilik Chairman Aclan Acar, for instance, noted that his firm will not hire

new staff or open special branches, but will instead simply use existing bank and insurance company offices to sell the product. He noted that his son, a financial analyst, had reviewed the advantages and disadvantages of the system, and concluded that despite the incentives, investing in a mutual fund is more advantageous, given its flexibility and the absence of penalties for early withdrawal. Without further incentives, Acar predicted, enrollments will likely lag behind industry expectations, so that he expects that without changes enrollments will only reach 2 million or so, rather than the hoped-for 10 million.

¶6. (SBU) Comment: Despite the caveats, the new retirement scheme does offer the potential to draw some additional resources into Turkish financial markets. In a country where most bank liabilities are extremely short term, and mismatch even with year-long government securities, any longer term instruments are a welcome development. But rapid growth in the sector is likely to be constrained not just by the relatively modest incentives the new system offers, but also by the continuing lag in real wage growth, which leaves most Turkish workers with relatively little savings to devote to such purposes. End comment.
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